

City of North Muskegon
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended November 30, 2008

City of North Muskegon

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As management of the City of North Muskegon, we present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended November 30, 2008. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the City had total assets of \$15,101,209 and total liabilities of \$2,005,801 leaving net assets of \$13,095,408, an increase of .11% in the City's overall net assets.
- Of the total \$13,095,408 in net assets, the City may use \$1,742,883 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$3,877,858, made up of governmental revenues of \$2,737,490 and business-type revenues of \$1,140,368.
- Total expenses for all of the City's programs were \$3,785,789. Of that total, the governmental expenses were \$2,613,835 and the business-type expenses were \$1,171,954.
- The City redesigned East End Park into a barrier free playground by incorporating new and refurbished playground equipment into an accessible formation separated by concrete sidewalks and grassy areas. The total project cost was \$36,118.
- The City purchased a lot between the existing police and fire department properties for \$77,000. The existing house and garages were demolished and the resulting green space will be maintained using a well and irrigation system that will service all City properties in the block.
- The City repaved Oakmere Avenue for a total cost of \$85,070.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the City include general government, public safety, public works and cultural and recreational activities. The business-type activities of the City include water distribution and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets and Local Streets funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds both of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General, Major Streets and Local Streets funds.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the City. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of November 30, 2008, the City's net assets from governmental activities totaled \$10,293,887 (79%) and \$2,801,521 (21%) from business-type activities, creating a total government-wide net assets total of \$13,095,408.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$961,550. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,801,521 in net assets including \$781,333 in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$327,286 and \$457,339, respectively.

The increase in governmental current assets and other assets mirrors the increase in net assets. Governmental current liabilities increased due to a higher payables balance as a result of timing issues as certain reoccurring invoices were received later than usual this year. Noncurrent liabilities continue to decline as scheduled debt payments are made. Invested in capital assets, net of related debt also increased as long term debt declined due to scheduled debt payments.

Business-type activities balances were relatively comparable to the prior year.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets and other assets	\$ 2,507,683	\$ 2,398,427	\$ 932,335	\$ 964,642	\$ 3,440,018	\$ 3,363,069
Capital assets	8,963,354	8,975,382	2,697,837	2,752,505	11,661,191	11,727,887
Total assets	11,471,037	11,373,809	3,630,172	3,717,147	15,101,209	15,090,956
Current liabilities	364,357	264,127	189,157	192,998	553,514	457,125
Noncurrent liabilities	812,793	939,450	639,494	691,042	1,452,287	1,630,492
Total liabilities	1,177,150	1,203,577	828,651	884,040	2,005,801	2,087,617
Net assets						
Invested in capital assets, net of related debt	8,091,937	7,991,744	2,020,188	1,989,269	10,112,125	9,981,013
Restricted	1,240,400	1,240,430	-	-	1,240,400	1,240,430
Unrestricted	961,550	938,058	781,333	843,838	1,742,883	1,781,896
Total net assets	\$ 10,293,887	\$ 10,170,232	\$ 2,801,521	\$ 2,833,107	\$ 13,095,408	\$ 13,003,339

City of North Muskegon

Management's Discussion and Analysis

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows changes in net assets.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2006
Revenues:						
Program revenues						
Charges for services	\$ 155,048	\$ 168,248	\$ 1,119,597	\$ 1,200,742	\$ 1,274,645	\$ 1,368,990
Operating grants	302,495	331,286	-	-	302,495	331,286
Capital grants and contributions	15,029	57,832	-	-	15,029	57,832
General revenues						
Property taxes	1,763,885	1,687,034	-	-	1,763,885	1,687,034
Franchise fees	27,565	32,569	-	-	27,565	32,569
Grants and contributions not restricted	333,442	334,078	-	-	333,442	334,078
Unrestricted investment earnings	55,217	88,252	20,771	34,755	75,988	123,007
Miscellaneous	84,470	163,569	-	-	84,470	163,569
Gain on sale of capital assets	339	-	-	-	339	-
Total revenues	2,737,490	2,862,868	1,140,368	1,235,497	3,877,858	4,098,365
Expenses:						
General government	524,968	523,226	-	-	524,968	523,226
Public safety	1,043,573	1,072,714	-	-	1,043,573	1,072,714
Public works	739,508	740,225	-	-	739,508	740,225
Culture and recreation	273,676	233,677	-	-	273,676	233,677
Interest on long term debt	32,110	35,564	-	-	32,110	35,564
Sewer	-	-	317,129	277,375	317,129	277,375
Water	-	-	854,825	820,467	854,825	820,467
Total expenses	2,613,835	2,605,406	1,171,954	1,097,842	3,785,789	3,703,248
Change in net assets	123,655	257,462	(31,586)	137,655	92,069	395,117
Net assets - Beginning	10,170,232	9,912,770	2,833,107	2,695,452	13,003,339	12,608,222
Net assets - Ending	\$ 10,293,887	\$ 10,170,232	\$ 2,801,521	\$ 2,833,107	\$ 13,095,408	\$ 13,003,339

At year-end, on November 30, 2008, net assets increased by \$123,655 in governmental activities and decreased by \$31,586 in business-type activities. This resulted in an increase of \$92,069 government-wide.

Governmental Activities

Operating grants declined because the City's fire department received a homeland security grant for small equipment purchases in the previous year. Capital grants declined as the City completed a major renovation of the Waterfront Sports Park for which a grant was received in the previous year. Property tax revenues increased due to growth in the City's taxable value. Investment earnings declined due to falling rates of return. Miscellaneous revenue declined because the City received a one time reimbursement for legal fees in the prior year.

Culture and recreation expenses primarily increased due to the addition of a Friday evening, "Taste of the Northside" event to the "Northside Family Fun Fest".

Business-type Activities

Charges for services declined as the water and sewer systems had less usage this year. Water expenses increased due to the City's meter replacement program. Sewer expenses increased due to a couple of unforeseen repair projects.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the City governmental funds reported a combined unreserved fund balance of \$1,632,861. This number represents the unreserved fund balance of \$632,178 in the General Fund, \$902,864 in Major Streets, \$91,150 in Local Streets, and \$6,669 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital projects (\$246,386). When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,879,247, which consists of a fund balance of \$632,178 in the General Fund, \$902,864 in the Major Streets Fund, \$91,150 in the Local Streets Fund, and \$253,055 in other governmental funds.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Sewer fund increased by \$38,149 and the Water fund net assets decreased by \$68,042. The result was an overall net decrease in the proprietary funds of \$29,893.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- Investment earnings revenue was originally budgeted for \$45,000 and was amended down to \$21,000 because of lower than anticipated interest rates.
- Other revenue was originally budgeted for \$88,670 and was amended up to \$108,320 because the City received a settlement due from the Muskegon Conservation Club storm sewer litigation.
- City parks expenditures were originally budgeted for \$47,250 and were amended up to \$63,800. The recreation department expenditures were originally budgeted for \$43,350 and were amended down to \$33,850. These two departments were combined midyear because of their similar function and purpose. Future recreation expenditures will be tracked in a consolidated department along with park expenditures. The overall budget for the two departments remained approximately the same.
- Walker Memorial Library expenditures were originally budgeted for \$22,900 and were amended up to \$36,398 because of unbudgeted building maintenance improvements including furnace repair and the installation of rain gutters and an alarm system.
- Other governmental expenditures were originally budgeted for \$629,721 and were amended down to \$573,575 largely due to a decrease in health care costs brought about by a restructuring of employee benefits.
- Capital outlay expenditures were originally budgeted for \$77,000 and were amended up to \$192,318 as the City had the opportunity to make additional capital improvements. The City purchased property between the existing fire and police buildings for \$77,060. Other adjustments included the \$18,500 used to replace faulty parking lot concrete in our Waterfront Sports Park and \$15,118 used to remove trees, add a well, irrigation system and sidewalks to the East End Park project.
- Transfers in were originally budgeted for \$32,000 and were amended up to \$610,860 because the Contingent & Reserve Fund was combined with the General Fund and will become a part of the General Fund's ongoing fund balance.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures in the General Fund.

- Sanitation expenditures were \$167,222, \$20,580 less than budgeted because the volume of brush processed decreased from last year. This was further compounded because of a change in the type of equipment needed and a decrease in the amount of time equipment was used to process brush.
- Other governmental functions were \$549,306, \$24,269 less than budgeted. These savings resulted from greater than expected savings from a restructuring of health benefits and lower than expected required pension contributions.
- Capital outlay expenditures were \$161,847, \$30,471 less than budgeted because the City's budgeted \$30,000 contribution to the Berry Junction Trail bike path extension was postponed due to a change in leadership in the oversight committee.

Capital Assets

The City investment in capital assets for its governmental and business-type activities as of November 30, 2008 totaled \$11,661,191 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- The City completed work on the parking lot of Block 58 Waterfront Sports Park by adding an additional \$18,500 bringing the total cost to \$556,997. This cost was incurred over the past three years.
- The City utilized \$36,118 to upgrade East End Park into a barrier free playground area by placing both new and renovated playground structures between new sidewalk areas. Several trees were removed to increase sunlight and allow the remaining trees the opportunity to properly develop. Electricity was installed and a well was added to service the new sprinkling system.
- The City purchased a piece of land located between the existing fire and police department for \$77,000. This cost included the assessment of potential environmental contaminants, demolishing the existing house and garages, leveling the area and turning it into a green space. A well was added to service the grassy areas of the block which includes the police and fire department lawns.
- The police department purchased a new police cruiser for \$25,168.
- The City repaired Stewart Street and Custer Park storm outfalls for \$22,391.
- The City paved Elsa Street for \$16,155 and Oakmere Drive for 85,070.
- The City looped a water main in the Linderman/Moulton area for \$18,076.
- The public works department purchased a used 1999 Ford bucket truck for \$14,015.
- The City disposed of a 1999 Ford Crown Vic police car and a 1988 Dodge bucket truck.

CAPITAL ASSETS (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 5,033,341	\$ 4,946,506	\$ 1,500	\$ 1,500	\$ 5,034,841	\$ 4,948,006
Construction in progress	-	9,775	-	-	-	9,775
Land improvements	627,425	634,257	-	-	627,425	634,257
Buildings and improvements	681,187	726,710	9,656	10,576	690,843	737,286
Vehicles and equipment	601,157	646,613	4,654	7,624	605,811	654,237
Infrastructure	2,020,244	2,011,521	-	-	2,020,244	2,011,521
Sewer system	-	-	682,322	699,888	682,322	699,888
Water system	-	-	1,999,705	2,032,917	1,999,705	2,032,917
Total	<u>\$ 8,963,354</u>	<u>\$ 8,975,382</u>	<u>\$ 2,697,837</u>	<u>\$ 2,752,505</u>	<u>\$ 11,661,191</u>	<u>\$ 11,727,887</u>

Additional information on the City's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Long-term Debt

At the end of the 2008 fiscal year, the City had total outstanding debt of \$1,713,587 consisting of general obligations bonds, revenue bonds, Michigan Transportation Fund bonds, and compensated absences. Approximately \$610,000 or (35%) of the City's outstanding debt represented in the table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 850,000	\$ 950,000	\$ 73,774	\$ 110,377	\$ 923,774	\$ 1,060,377
Michigan Transportation Fund bonds	30,000	45,000	-	-	30,000	45,000
Revenue bonds	-	-	610,000	660,000	610,000	660,000
Compensated absences	131,793	118,450	18,020	14,308	149,813	132,758
Total	<u>\$ 1,011,793</u>	<u>\$ 1,113,450</u>	<u>\$ 701,794</u>	<u>\$ 784,685</u>	<u>\$ 1,713,587</u>	<u>\$ 1,898,135</u>

The City's total debt decreased by \$184,548 during the fiscal year. This decrease was due to scheduled debt payments.

Additional information on the City's long-term debt can be found in Note I of the "Notes to Financial Statements" of this report.

General Economic Overview

The City's fiscal year 2009 capital budget anticipates spending \$131,700 for capital projects, which include storm outfall and road repairs, looping an 8" water main and purchasing a pick-up truck for the Department of Public Works and a police cruiser. From an operations standpoint, the City's 2009 budget plan is to maintain current service levels with no new expenditure initiatives.

To fund its services, the City uses the following sources of revenue: Property Tax Revenue, Constitutional and Statutory State Shared Revenue, State Major Transportation and Local Road Project Funds, and Water and Sewer Utility Fees. These four sources make up a majority of the City's financial resources.

Property Tax Revenues

Michigan state property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution, commonly referred to as "Proposal A". The statewide tax reform amendment limits the growth in taxable value on any unsold individual property to the lesser of inflation or 5 percent. When property is transferred, the resulting Headlee rollback, caused by the uncapping of taxable values, actually results in other property owners paying less than the rate of inflation. Because the City of North Muskegon is a "mature" community with few parcels available for the building of new homes, the effect of this rollback is magnified. This results in slower growth in the City's property tax revenues.

For the first decade or more after the passage of Proposal A, most property owners experienced significant and sometimes double-digit "property value" increases while their actual property taxes increased by the rate of inflation (between 1 percent and 3 percent). Unfortunately, due to various economic factors, the opposite has occurred over the last several years and will again occur in 2009. Many property values are declining (or remaining flat) while property taxes for many taxpayers will increase by 4.4% (for all properties whose taxable value does not exceed its state equalized value) as mandated by Proposal A. Because of the formulas used to calculate our Headlee millage rollback, this increase does not translate into large amounts of additional tax revenue for the City.

The City's charter allows for the collection of 10 mills per dollar of taxable value assessed to each property owner. The City's 2008 general operating millage rate will remain at the 2007 level of 9.3849, as adjusted by the Headlee Amendment. Due to various formulas and factors impacting the calculation of tax revenue, rather than realizing a 4.4% increase in property tax revenue in the 08-09 year, the City anticipates a 1% increase which will result in \$1,370,214 of general operating tax revenue, a \$14,041 increase over 07/08 levels.

In addition to the operating millage, the City will collect 1.3 of the allowable 2.5 mills for yard waste collection which will generate \$189,803, a \$1,945 increase over last year. The 1.5 mill Public Safety millage, a 10-year charter amendment millage used to purchase public safety equipment and to repay bonds issued for the 2005 Ruddiman Drive repaving project will generate \$219,003, an additional \$2,244 over last year's revenue.

Constitutional and Statutory State Shared Revenue and Grants

Typically, the second largest source of municipal revenue is state shared sales tax revenue. This type of revenue represents approximately 15.4% of the City's total general fund revenue. The constitutional portion is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis. It cannot be reduced by the legislature. The statutory portion is determined by a complex formula and is subject to adjustment during the State's budget process. Both constitutional and statutory revenue depends on the State's sales tax collections. The City's recent state shared revenue history is summarized below:

<u>Year</u>	<u>State Shared Revenues</u>	<u>Percent Change</u>
2008	\$ 331,018	- .20
2007	\$ 331,688	- 1.70
2006	\$ 337,413	- 2.36
2005	\$ 345,574	- .78
2004	\$ 348,274	-10.12
2003	\$ 387,508	- 4.44
2002	\$ 405,531	- 2.98
2001	\$ 417,977	- .26
2000	\$ 419,058	

Over the past several years, the State's budget challenges have caused a reduction in statutory revenue sharing payments to local governmental units. This decrease in revenue is the single biggest threat to the stability of City finances at this time.

Major Streets and Local Streets Funds

The State shares a portion of gasoline tax revenue to assist with road maintenance and construction of major and local streets within the City. Although these revenues have not seen drastic decreases, they have not increased to keep pace with inflation and rising costs of preserving our road infrastructure.

Budgets for revenues and usual annual expenditures in both the 2008 Major and Local Streets Fund budgets are consistent with 2007 figures with the exception of the 2008 capital outlay projects planned which include crack sealing various streets and the reconstruction of a storm water outfall using Major Street funds.

Water and Sewer Utility Fees

The City purchases its water from the City of Muskegon's water treatment plant. Due to water rate increases passed along by the City of Muskegon, North Muskegon implemented a two step rate increase in 2004 and 2005. No further rate adjustments are anticipated during the 2008/09 fiscal year.

The City plans to loop the water main running along Eimer between Cedar and Moulton Avenue in the upcoming year. This will eliminate any potential disinfection byproducts in this area.

The City implemented a 30% sewer rate usage increase beginning in January of 2008. There was a slight decrease in the sewer debt service charge which resulted because of a reduction in County bond payments. The City does not anticipate a sewer rate change in the 2008/09 budget year.

Funding of Other Post Employment Benefits Requirement

The Governmental Accounting Standards Board (GASB) established standards in 1994 regarding how public employee pension plans and governmental employers participating in pension plans should account for and report on pension benefits, but until recently, similar provisions did not exist for Other Post Employment Benefits (OPEB). GASB believes that both pension benefits and OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after their employment has ended. In an effort to clarify the complete costs of public services and to help readers of financial statements analyze the financial position and long-term financial health of a government, GASB developed standards to ensure that the nature and size of each governmental entity's financial obligations and commitments are presented in a quantitative manner.

The City of North Muskegon must begin reporting their OPEB liability (actual amount will be determined by an actuarial valuation) in the 2009/10 fiscal year. Financial statements of entities which do not set aside money to fund the liability will include a liability in the government-wide financial statements for the unfunded amount. Even though there is presently no mandate to fund the liability, there is reason to believe that future bond ratings may be affected if large liabilities are created.

Because of these upcoming requirements, the City implemented a trust fund through the Municipal Employees Retirement System to provide a safe vehicle to maximize the long-term rate of return on dollars set aside for this purpose. The 2007 budget included \$29,000 which was transferred to this trust fund to begin our OPEB funding. An additional \$16,000 was added to that investment in 2008. The actuarial will be completed during the 2009 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of North Muskegon's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of North Muskegon, 1502 Ruddiman Drive, North Muskegon, Michigan, 49445, (231) 744-1621.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

February 26, 2009

Honorable Mayor and Members
of the City Council
North Muskegon
North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon as of and for the year ended November 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon, as of November 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information on pages i - xii and 29 - 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Muskegon's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley De Long, P.C.

City of North Muskegon
STATEMENT OF NET ASSETS
November 30, 2008

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 2,312,388	\$ 530,796	\$ 2,843,184
Receivables	26,655	272,898	299,553
Due from other governmental units	98,602	-	98,602
Internal balances	3,292	(3,292)	-
Inventories	5,000	38,000	43,000
Total current assets	2,445,937	838,402	3,284,339
NONCURRENT ASSETS			
Capital assets, net			
Nondepreciable	5,033,341	1,500	5,034,841
Depreciable	3,930,013	2,696,337	6,626,350
Bond issuance costs, net	8,583	6,125	14,708
Special assessments receivable	53,163	87,808	140,971
Total noncurrent assets	9,025,100	2,791,770	11,816,870
Total assets	11,471,037	3,630,172	15,101,209
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	123,643	43,101	166,744
Due to other governmental units	-	83,756	83,756
Deferred revenue	41,714	-	41,714
Bonds and other obligations, due within one year	199,000	62,300	261,300
Total current liabilities	364,357	189,157	553,514
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	812,793	639,494	1,452,287
Total liabilities	1,177,150	828,651	2,005,801
NET ASSETS			
Invested in capital assets, net of related debt	8,091,937	2,020,188	10,112,125
Restricted for:			
Streets and highways	994,014	-	994,014
Capital projects	246,386	-	246,386
Unrestricted	961,550	781,333	1,742,883
Total net assets	\$ 10,293,887	\$ 2,801,521	\$ 13,095,408

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF ACTIVITIES
For the year ended November 30, 2008

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 524,968	\$ 17,698	\$ -	\$ 1,070	\$ (506,200)	\$ -	\$ (506,200)
Public safety	1,043,573	45,138	-	960	(997,475)	-	(997,475)
Public works	739,508	45,587	302,495	12,999	(378,427)	-	(378,427)
Culture and recreation	273,676	46,625	-	-	(227,051)	-	(227,051)
Interest on long-term debt	32,110	-	-	-	(32,110)	-	(32,110)
Total governmental activities	2,613,835	155,048	302,495	15,029	(2,141,263)	-	(2,141,263)
Business-type activities							
Sewer	317,129	347,388	-	-	-	30,259	30,259
Water	854,825	772,209	-	-	-	(82,616)	(82,616)
Total business-type activities	1,171,954	1,119,597	-	-	-	(52,357)	(52,357)
Total government	\$ 3,785,789	\$ 1,274,645	\$ 302,495	\$ 15,029	(2,141,263)	(52,357)	(2,193,620)
General revenues							
Property taxes					1,763,885	-	1,763,885
Franchise fees					27,565	-	27,565
Grants and contributions not restricted to specific programs					333,442	-	333,442
Unrestricted investment earnings					55,217	20,771	75,988
Miscellaneous					84,470	-	84,470
Gain on sale of capital assets					339	-	339
Total general revenues					2,264,918	20,771	2,285,689
Change in net assets					123,655	(31,586)	92,069
Net assets at December 1, 2007					10,170,232	2,833,107	13,003,339
Net assets at November 30, 2008					\$ 10,293,887	\$ 2,801,521	\$ 13,095,408

The accompanying notes are an integral part of this statement.

City of North Muskegon
BALANCE SHEET
Governmental Funds
November 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and investments	\$ 716,482	\$ 870,064	\$ 72,620	\$ 252,526	\$ 1,911,692
Receivables					
Accounts	4,391	-	-	-	4,391
Property taxes	52	-	-	7	59
Special assessments	-	-	59,886	4,345	64,231
Other	2,227	6,682	-	-	8,909
Due from other governmental units	60,667	27,941	9,994	-	98,602
Total assets	<u>\$ 783,819</u>	<u>\$ 904,687</u>	<u>\$ 142,500</u>	<u>\$ 256,878</u>	<u>\$ 2,087,884</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 76,540	\$ 424	\$ 833	\$ 565	\$ 78,362
Accrued liabilities	33,388	1,399	612	-	35,399
Deferred revenue	41,713	-	49,905	3,258	94,876
Total liabilities	151,641	1,823	51,350	3,823	208,637
Fund balances					
Reserved for capital projects	-	-	-	246,386	246,386
Unreserved, undesignated					
General Fund	632,178	-	-	-	632,178
Special revenue funds	-	902,864	91,150	6,669	1,000,683
Total fund balances	632,178	902,864	91,150	253,055	1,879,247
Total liabilities and fund balances	<u>\$ 783,819</u>	<u>\$ 904,687</u>	<u>\$ 142,500</u>	<u>\$ 256,878</u>	<u>\$ 2,087,884</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 November 30, 2008

Total fund balance—governmental funds		\$ 1,879,247
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 11,279,627	
Accumulated depreciation	<u>(2,400,926)</u>	8,878,701

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	18,496	
Accumulated amortization	<u>(9,913)</u>	8,583

Accrued interest in governmental activities is not reported in the governmental funds.	(5,000)
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Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.	53,163
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(880,000)	
Compensated absences	<u>(131,793)</u>	(1,011,793)

Internal service funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the internal service funds are reported
with governmental activities in the Statement of Net Assets.

	<u>490,986</u>
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Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>10,293,887</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended November 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other governmental funds	Total governmental funds
REVENUES					
Property taxes	\$ 1,547,189	\$ -	\$ -	\$ 216,696	\$ 1,763,885
Licenses and permits	68,299	-	-	-	68,299
Intergovernmental revenues					
Federal	960	-	-	-	960
State	331,018	199,593	73,358	-	603,969
Charges for services	68,993	-	-	27,740	96,733
Fines and forfeitures	8,751	-	-	-	8,751
Investment earnings	23,575	25,503	7,535	17,609	74,222
Other	113,661	-	22,981	1,086	137,728
Total revenues	2,162,446	225,096	103,874	263,131	2,754,547
EXPENDITURES					
Current					
General government	364,927	-	-	-	364,927
Public safety	651,523	-	-	1,241	652,764
Public works	294,669	150,315	105,053	-	550,037
Culture and recreation	132,251	-	-	39,818	172,069
Other governmental functions	549,306	-	-	-	549,306
Debt service					
Principal	-	-	15,000	100,000	115,000
Interest and fees	-	-	1,935	30,775	32,710
Capital outlay	161,847	22,390	101,225	-	285,462
Total expenditures	2,154,523	172,705	223,213	171,834	2,722,275
Excess of revenues over (under) expenditures	7,923	52,391	(119,339)	91,297	32,272
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	1,861	-	-	-	1,861
Transfers in	611,069	-	-	15,700	626,769
Transfers out	(13,675)	-	-	(613,094)	(626,769)
Total other financing sources (uses)	599,255	-	-	(597,394)	1,861
Net change in fund balances	607,178	52,391	(119,339)	(506,097)	34,133
Fund balances at December 1, 2007	25,000	850,473	210,489	759,152	1,845,114
Fund balances at November 30, 2008	\$ 632,178	\$ 902,864	\$ 91,150	\$ 253,055	\$ 1,879,247

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended November 30, 2008

Net change in fund balances—total governmental funds	\$	34,133
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (284,384)	
Capital outlay	<u>285,462</u>	1,078

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(1,522)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		115,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		600
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(13,343)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.		(11,068)
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The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>(1,223)</u>
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Change in net assets of governmental activities	\$	<u><u>123,655</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
November 30, 2008

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 270,855	\$ 259,941	\$ 530,796	\$ 400,696
Receivables				
Accounts	82,850	170,584	253,434	-
Special assessments	1,440	18,024	19,464	-
Other	-	-	-	2,227
Inventories	6,000	32,000	38,000	5,000
Total current assets	361,145	480,549	841,694	407,923
NONCURRENT ASSETS				
Capital assets				
Land	-	1,500	1,500	-
Utility systems	1,238,796	2,859,840	4,098,636	-
Buildings and improvements	-	13,795	13,795	-
Equipment	33,906	17,034	50,940	732,316
Less accumulated depreciation	(585,784)	(881,250)	(1,467,034)	(647,663)
Net capital assets	686,918	2,010,919	2,697,837	84,653
Bond issuance costs, net	-	6,125	6,125	-
Special assessments receivable	4,320	83,488	87,808	-
Total noncurrent assets	691,238	2,100,532	2,791,770	84,653
Total assets	1,052,383	2,581,081	3,633,464	492,576
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	2,021	32,984	35,005	4,623
Accrued liabilities	566	7,530	8,096	259
Due to other governmental units	28,868	54,888	83,756	-
Bonds and other obligations, due within one year	3,000	59,300	62,300	-
Total current liabilities	34,455	154,702	189,157	4,882
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	3,724	635,770	639,494	-
Total liabilities	38,179	790,472	828,651	4,882
NET ASSETS				
Invested in capital assets, net of related debt	686,918	1,333,270	2,020,188	84,653
Unrestricted	327,286	457,339	784,625	403,041
Total net assets	\$ 1,014,204	\$ 1,790,609	2,804,813	\$ 487,694
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(3,292)	
Net assets of business-type activities			\$ 2,801,521	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended November 30, 2008

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 347,388	\$ 767,294	\$ 1,114,682	\$ 142,473
OPERATING EXPENSES				
Administration	19,580	24,006	43,586	1,442
Operations	275,576	739,772	1,015,348	126,109
Depreciation and amortization	20,420	53,341	73,761	28,378
Total operating expenses	315,576	817,119	1,132,695	155,929
Operating income (loss)	31,812	(49,825)	(18,013)	(13,456)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	7,163	13,608	20,771	10,540
Connection fees	-	4,915	4,915	-
Interest expense	(826)	(36,740)	(37,566)	-
Total nonoperating revenues (expenses)	6,337	(18,217)	(11,880)	10,540
Change in net assets	38,149	(68,042)	(29,893)	(2,916)
Net assets at December 1, 2007	976,055	1,858,651		490,610
Net assets at November 30, 2008	\$ 1,014,204	\$ 1,790,609		\$ 487,694
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds			(1,693)	
Change in net assets of business-type activities			\$ (31,586)	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended November 30, 2008

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 337,875	\$ 750,616	\$ 1,088,491	\$ -
Receipts from interfund services provided	993	4,106	5,099	142,473
Payments to suppliers	(228,240)	(647,661)	(875,901)	(105,475)
Payments to employees	(52,546)	(80,610)	(133,156)	(22,605)
Payment for interfund services used	(7,711)	(10,252)	(17,963)	-
Net cash provided by operating activities	50,371	16,199	66,570	14,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection fees	1,440	28,144	29,584	-
Purchases of capital assets	-	(18,076)	(18,076)	(14,015)
Principal paid on capital debt	(33,043)	(53,560)	(86,603)	-
Interest paid on capital debt	(826)	(37,440)	(38,266)	-
Net cash used for capital and related financing activities	(32,429)	(80,932)	(113,361)	(14,015)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	7,163	13,608	20,771	8,313
Net increase (decrease) in cash and investments	25,105	(51,125)	(26,020)	8,691
Cash and investments at December 1, 2007	245,750	311,066	556,816	392,005
Cash and investments at November 30, 2008	<u>\$ 270,855</u>	<u>\$ 259,941</u>	<u>\$ 530,796</u>	<u>\$ 400,696</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 31,812	\$ (49,825)	\$ (18,013)	\$ (13,456)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	20,420	53,341	73,761	28,378
Change in assets and liabilities				
Receivables, net	(8,521)	(12,572)	(21,093)	-
Accounts payable	660	32,969	33,629	(359)
Accrued liabilities	1,089	3,126	4,215	(170)
Due to other governmental units	4,911	(10,840)	(5,929)	-
Net cash provided by operating activities	<u>\$ 50,371</u>	<u>\$ 16,199</u>	<u>\$ 66,570</u>	<u>\$ 14,393</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
November 30, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>4,763</u>
LIABILITIES	
Due to other governmental units	\$ <u>4,763</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS
November 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of North Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. Generally accepted accounting principles require that if the City has certain oversight responsibilities over other organizations, those organizations should be included in the City's financial statements. Since no organizations met these criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's major streets.

The Local Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's local streets.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the City totaled approximately \$144,468,000. The ad valorem taxes levied consisted of 9.3849, 1.3 and 1.5 mills for the City's general operating, rubbish collection and public safety/Ruddiman repaving purposes, respectively. These amounts are recognized in the respective General Fund and Millage Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since December 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-30
Buildings and improvements	10-35
Vehicles and equipment	4-25
Infrastructure	10-50

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for vacation days and one-half of their accrued sick days as separation pay under limits that vary by employment group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the commencement of the fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following December 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. No later than November 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of November 30, 2008, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Fitch's	Percent
External investment pool	\$ 365,397	0.72	not rated	42.0 %
External investment pool	<u>504,351</u>	<u>0.99</u>	AAA	<u>58.0</u>
Total fair value	\$ <u>869,748</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>0.88</u>		

The City voluntarily invests certain excess funds in external pooled investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan municipalities. The Pools are not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pools.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of November 30, 2008, \$1,891,682 of the City's bank balance of \$2,866,588 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2008 was as follows:

	Balance December 1, 2007	Additions	Deductions	Balance November 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,946,506	\$ 86,835	\$ -	\$ 5,033,341
Construction in progress	<u>9,775</u>	<u>-</u>	<u>9,775</u>	<u>-</u>
Total capital assets, not being depreciated	4,956,281	86,835	9,775	5,033,341
Capital assets, being depreciated:				
Land improvements	862,362	34,920	-	897,282
Buildings and other improvements	1,880,798	-	-	1,880,798
Vehicles and equipment	1,810,375	63,882	45,536	1,828,721
Infrastructure	<u>2,248,187</u>	<u>123,614</u>	<u>-</u>	<u>2,371,801</u>
Total capital assets, being depreciated	6,801,722	222,416	45,536	6,978,602
Less accumulated depreciation:				
Land improvements	228,105	41,752	-	269,857
Buildings and other improvements	1,154,088	45,523	-	1,199,611
Vehicles and equipment	1,163,762	107,816	44,014	1,227,564
Infrastructure	<u>236,666</u>	<u>114,891</u>	<u>-</u>	<u>351,557</u>
Total accumulated depreciation	<u>2,782,621</u>	<u>309,982</u>	<u>44,014</u>	<u>3,048,589</u>
Total capital assets, being depreciated, net	<u>4,019,101</u>	<u>(87,566)</u>	<u>1,522</u>	<u>3,930,013</u>
Capital assets, net	<u>\$ 8,975,382</u>	<u>\$ (731)</u>	<u>\$ 11,297</u>	<u>\$ 8,963,354</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,500	\$ -	\$ -	\$ 1,500

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance December 1, 2007	Additions	Deductions	Balance November 30, 2008
Business-type activities:—Continued				
Capital assets, being depreciated:				
Sewer system	\$ 1,238,796	\$ -	\$ -	\$ 1,238,796
Water system	2,841,764	18,076	-	2,859,840
Buildings and improvements	13,795	-	-	13,795
Equipment	50,940	-	-	50,940
Total capital assets, being depreciated	4,145,295	18,076	-	4,163,371
Less accumulated depreciation:				
Sewer system	538,908	17,566	-	556,474
Water system	808,847	51,288	-	860,135
Buildings and improvements	3,219	920	-	4,139
Equipment	43,316	2,970	-	46,286
Total accumulated depreciation	1,394,290	72,744	-	1,467,034
Total capital assets, being depreciated, net	2,751,005	(54,668)	-	2,696,337
Capital assets, net	\$ 2,752,505	\$ (54,668)	\$ -	\$ 2,697,837

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 11,092
Public safety	67,675
Public works	125,277
Culture and recreation	77,560
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	28,378
	<u>\$ 309,982</u>

Business-type activities:

Sewer	\$ 20,420
Water	52,324
	<u>\$ 72,744</u>

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended November 30, 2008 was as follows:

	Balance December 1, 2007	Additions	Deductions	Balance November 30, 2008
Business-type activities				
Access rights	\$ 110,512	\$ -	\$ 110,512	\$ -
Less accumulated amortization	<u>110,512</u>	<u>-</u>	<u>110,512</u>	<u>-</u>
Access rights, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Amortization

Amortization expense has been charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended November 30, 2008 was as follows:

	Balance December 1, 2007	Additions	Deductions	Balance November 30, 2008
Governmental activities:				
Bond issuance costs	\$ 18,496	\$ -	\$ -	\$ 18,496
Less accumulated amortization	<u>7,134</u>	<u>2,779</u>	<u>-</u>	<u>9,913</u>
Bond issuance costs, net	<u>\$ 11,362</u>	<u>\$ (2,779)</u>	<u>\$ -</u>	<u>\$ 8,583</u>
Business-type activities:				
Bond issuance costs	\$ 16,060	\$ -	\$ -	\$ 16,060
Less accumulated amortization	<u>8,917</u>	<u>1,018</u>	<u>-</u>	<u>9,935</u>
Bond issuance costs, net	<u>\$ 7,143</u>	<u>\$ (1,018)</u>	<u>\$ -</u>	<u>\$ 6,125</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental activities:

 Public works \$ 2,779

Business-type activities:

 Water \$ 1,018

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers:

	Transfers in:		Total	Purpose
	General Fund	Other governmental funds		
Transfers out:				
General Fund	\$ -	\$ 13,675	\$ 13,675	Operations subsidy
Contingent and Reserve Fund	585,901	2,025	587,926	Closed fund
Millage Fund	25,168	-	25,168	Capital projects
Total	<u>\$ 611,069</u>	<u>\$ 15,700</u>	<u>\$ 626,769</u>	

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 53,163	\$ -
Grants and fees	-	41,713
Total deferred revenue for governmental funds	<u>\$ 53,163</u>	<u>\$ 41,713</u>

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended November 30, 2008.

	Balance December 1, 2007	Additions	Reductions	Balance November 30, 2008	Due within one year
Governmental activities:					
General obligation bonds	\$ 950,000	\$ -	\$ 100,000	\$ 850,000	\$ 125,000
Michigan Transportation Fund bonds	45,000	-	15,000	30,000	15,000
Compensated absences	118,450	78,920	65,577	131,793	59,000
Governmental activity long-term liabilities	<u>\$ 1,113,450</u>	<u>\$ 78,920</u>	<u>\$ 180,577</u>	<u>\$ 1,011,793</u>	<u>\$ 199,000</u>
Business-type activities:					
General obligation bonds	\$ 110,377	\$ -	\$ 36,603	\$ 73,774	\$ 3,800
Revenue bonds	660,000	-	50,000	610,000	50,000
Compensated absences	14,308	9,018	5,306	18,020	8,500
Business-type activity long-term liabilities	<u>\$ 784,685</u>	<u>\$ 9,018</u>	<u>\$ 91,909</u>	<u>\$ 701,794</u>	<u>\$ 62,300</u>

Governmental activities:

General obligation bonds:

Limited Tax General Obligation Bonds of 2005 payable in
annual installments of \$100,000 to \$175,000
through April 2014; interest at rates varying
from 3.25% to 3.6%

\$ 850,000

Michigan Transportation Fund bonds:

\$115,000 Michigan Transportation Fund Bonds of 2001
payable in annual installments of \$15,000
through November 2010; interest at rates
varying from 4.3% to 4.4%

30,000

880,000

Compensated absences

131,793

\$ 1,011,793

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

General obligation bonds:

\$129,334 Northside Water System Bonds	
of 1983; payable in annual installments of \$8,200	
through February 2022; including interest at 6%	\$ 73,774

Revenue bonds:

\$895,000 Water Revenue Bonds of 2001 payable in	
annual installments of \$50,000 to \$55,000 through	
November 2020; interest at 4.5% to 5.4%	610,000

Compensated absences	
	18,020
	\$ 701,794

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The City has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The City's portion of the debt on November 30, 2008 was \$517,564. The City is unaware of any circumstances that would cause a shortfall in the near future.

The City was in compliance in all material respects with all the revenue bond ordinances at November 30, 2008.

Annual debt service requirements to maturity for debt outstanding as of November 30, 2008 follows:

Year ending November 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2009	\$ 140,000	\$ 28,424	\$ 53,800	\$ 34,976
2010	140,000	23,638	59,000	32,500
2011	125,000	18,759	54,200	29,730
2012	150,000	14,100	54,500	27,126
2013	150,000	8,925	54,800	24,456
2014-2018	175,000	3,150	278,600	79,908
2019-2022	-	-	128,874	11,852
	\$ 880,000	\$ 96,996	\$ 683,774	\$ 240,548

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE J—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were nine retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended November 30, 2008, the City's post-retirement health care cost under the Plan was approximately \$37,500.

The City has also set up a trust fund through the Municipal Employees Retirement System to provide health insurance to retirees under Public Act of 149 of 1999 during the year ended November 30, 2007 and deposited \$29,000 and \$16,000 into it for the years ended November 30, 2008 and 2007, respectively. The trust fund was set up in preparation of the City's adoption of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) Other Than Pensions* which is effective for the City on December 1, 2009. GASB 45 will require the City to account for retiree health care benefits on an actuarial basis rather than on a pay-as-you-go basis under which they are currently accounted.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE J—OTHER INFORMATION—Continued

Lease

The City leases an automobile under an operating lease. Lease expense amounted to \$4,797 for the year ended November 30, 2008. The future minimum lease payments for this lease are as follows:

Year ending November 30,	<u>Amount</u>
2009	\$ 4,428
2010	<u>3,690</u>
	<u>\$ 8,118</u>

NOTE K—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of North Muskegon is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of North Muskegon. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of North Muskegon
1502 Ruddiman Drive
North Muskegon, MI 49445

Funding Policy. Plan members are required to contribute 3 percent of the first \$4,200 of annual compensation and 5 percent of the portion over \$4,200 to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 9.03 to 15.22 percent of annual covered payroll depending on the plan. The contributions requirements of plan members and the City are established and may be amended by MERS.

Annual Pension Cost. For the year ended November 30, 2008, the City's annual pension cost was approximately \$139,000 was equal to the City's required and actual contribution.

Three-Year Trend Information

<u>Year ending</u>	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
11/30/06	\$ 86,000	100 %	\$ -
11/30/07	132,000	100	-
11/30/08	139,000	100	-

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2008

NOTE K—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years which will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

Funding Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 82 percent funded. The actuarial accrued liability for benefits was approximately \$5,233,000, and the actuarial value of assets was approximately \$4,282,000, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$951,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$810,000, and the ratio of the UAAL to the covered payroll was 117 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

REQUIRED SUPPLEMENTARY INFORMATION

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended November 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 1,546,528	\$ 1,547,109	\$ 1,547,189	\$ 80
Licenses and permits	68,500	67,250	68,299	1,049
Intergovernmental revenues				
Federal	3,300	960	960	-
State	320,000	327,500	331,018	3,518
Charges for services	71,698	68,979	68,993	14
Fines and forfeitures	12,500	8,570	8,751	181
Investment earnings	45,000	21,000	23,575	2,575
Other	88,670	108,320	113,661	5,341
Total revenues	2,156,196	2,149,688	2,162,446	12,758
EXPENDITURES				
Current				
General government				
City manager	81,225	79,930	79,626	304
Elections	10,850	9,600	9,627	(27)
Board of review	1,200	600	585	15
Clerk	51,271	45,750	44,961	789
Treasurer	51,121	49,820	49,595	225
Assessor	18,440	18,190	18,126	64
Attorney	32,900	35,900	32,458	3,442
Office - clerical	36,040	34,500	35,523	(1,023)
City hall	45,950	45,500	45,985	(485)
Public service building	34,300	42,800	48,441	(5,641)
Public safety				
Police department	520,346	526,234	522,898	3,336
Fire department	118,880	117,475	113,877	3,598
Building inspector	14,900	14,800	14,748	52
Public works				
Sidewalk maintenance	29,800	23,250	22,528	722
Street department	103,902	99,450	104,919	(5,469)
Engineering	3,000	-	-	-
Sanitation	193,000	187,802	167,222	20,580
Culture and recreation				
City parks	47,250	63,800	63,138	662
Recreation facilities	43,350	33,850	32,141	1,709
Walker Memorial Library	22,900	36,398	36,972	(574)
Other governmental functions	629,721	573,575	549,306	24,269
Capital outlay	77,000	192,318	161,847	30,471
Total expenditures	2,167,346	2,231,542	2,154,523	77,019
Excess of revenues over expenditures	(11,150)	(81,854)	7,923	89,777
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	1,500	1,861	1,861	-
Transfers in	32,000	610,860	611,069	209
Transfers out	(22,350)	(13,675)	(13,675)	-
Total other financing sources (uses)	11,150	599,046	599,255	209
Net change in fund balance	\$ -	\$ 517,192	607,178	\$ 89,986
Fund balance at December 1, 2007			25,000	
Fund balance at November 30, 2008			\$ 632,178	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended November 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental revenues - State	\$ 207,500	\$ 200,800	\$ 199,593	\$ (1,207)
Investment earnings	<u>30,000</u>	<u>19,000</u>	<u>25,503</u>	<u>6,503</u>
Total revenues	237,500	219,800	225,096	5,296
EXPENDITURES				
Current				
Public works	111,690	152,587	150,315	2,272
Capital outlay	<u>55,000</u>	<u>22,500</u>	<u>22,390</u>	<u>110</u>
Total expenditures	<u>166,690</u>	<u>175,087</u>	<u>172,705</u>	<u>2,382</u>
Net change in fund balance	\$ <u>70,810</u>	\$ <u>44,713</u>	52,391	\$ <u>7,678</u>
Fund balance at December 1, 2007			<u>850,473</u>	
Fund balance at November 30, 2008			<u>\$ 902,864</u>	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended November 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 72,700	\$ 67,650	\$ 73,358	\$ 5,708
Investment earnings	15,600	7,400	7,535	135
Other	9,900	22,980	22,981	1
Total revenues	98,200	98,030	103,874	5,844
EXPENDITURES				
Current				
Public works	90,497	107,877	105,053	2,824
Debt service				
Principal	10,000	15,000	15,000	-
Interest and fees	1,300	2,000	1,935	65
Capital outlay	-	100,670	101,225	(555)
Total expenditures	101,797	225,547	223,213	2,334
Net change in fund balance	\$ (3,597)	\$ (127,517)	(119,339)	\$ 8,178
Fund balance at December 1, 2007			210,489	
Fund balance at November 30, 2008			\$ 91,150	

City of North Muskegon
Required Supplemental Information
SCHEDULE OF FUNDING PROGRESS FOR MERS PENSION PLAN
For the year ended November 30, 2008

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/05	\$ 3,863	\$ 5,252	\$ 1,389	74 %	\$ 772	180 %
12/31/06	4,033	5,138	1,105	78	769	144
12/31/07	4,282	5,233	951	82	810	117

OTHER SUPPLEMENTAL INFORMATION

City of North Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
November 30, 2008

		Special Revenue			Capital Projects	
	Total other governmental funds	Walker Community Center	Community Events	Contingent and Reserve	Alley Paving District #02-A	Millage
ASSETS						
Cash and investments	\$ 252,526	\$ 1,752	\$ 5,482	\$ -	\$ 6,494	\$ 238,798
Receivables						
Property taxes	7	-	-	-	-	7
Special assessments	4,345	-	-	-	4,345	-
Total assets	<u>\$ 256,878</u>	<u>\$ 1,752</u>	<u>\$ 5,482</u>	<u>\$ -</u>	<u>\$ 10,839</u>	<u>\$ 238,805</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 565	\$ 565	\$ -	\$ -	\$ -	\$ -
Deferred revenue	3,258	-	-	-	3,258	-
Total liabilities	3,823	565	-	-	3,258	-
Fund balances						
Reserved for capital projects	246,386	-	-	-	7,581	238,805
Unreserved						
Undesignated	6,669	1,187	5,482	-	-	-
Total fund balances	253,055	1,187	5,482	-	7,581	238,805
Total liabilities and fund balances	<u>\$ 256,878</u>	<u>\$ 1,752</u>	<u>\$ 5,482</u>	<u>\$ -</u>	<u>\$ 10,839</u>	<u>\$ 238,805</u>

City of North Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended November 30, 2008

		Special Revenue			Capital Projects	
	Total other governmental funds	Walker Community Center	Community Events	Contingent and Reserve	Alley Paving District #02-A	Millage
REVENUES						
Property taxes	\$ 216,696	\$ -	\$ -	\$ -	\$ -	\$ 216,696
Charges for services	27,740	2,990	20,950	3,800	-	-
Investment earnings	17,609	77	146	11,066	691	5,629
Other	1,086	-	-	-	1,086	-
Total revenues	263,131	3,067	21,096	14,866	1,777	222,325
EXPENDITURES						
Current						
Public safety	1,241	-	-	-	-	1,241
Culture and recreation	39,818	16,880	22,938	-	-	-
Debt service						
Principal	100,000	-	-	-	-	100,000
Interest and fees	30,775	-	-	-	-	30,775
Total expenditures	171,834	16,880	22,938	-	-	132,016
Excess of revenues over (under) expenditures	91,297	(13,813)	(1,842)	14,866	1,777	90,309
OTHER FINANCING SOURCES (USES)						
Transfers in	15,700	13,675	2,025	-	-	-
Transfers out	(613,094)	-	-	(587,926)	-	(25,168)
Total other financing sources (uses)	(597,394)	13,675	2,025	(587,926)	-	(25,168)
Net change in fund balances	(506,097)	(138)	183	(573,060)	1,777	65,141
Fund balances at December 1, 2007	759,152	1,325	5,299	573,060	5,804	173,664
Fund balances at November 30, 2008	\$ 253,055	\$ 1,187	\$ 5,482	\$ -	\$ 7,581	\$ 238,805